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As I sell

OUR CALYPSO HOUSING PROGRAM

A number of years ago a new type of song originated on the Island of Trinidad. This new type of singing became known as Calypso singing and gained rather wide popularity in the United States during the war.

Aside from the fact that most Calypso songs are a trifle on the ribald side, they have several other characteristics. To begin with, they are long-drawn-out songs which the singer makes up as he goes along and in which no one, least of all the singer, knows what he is going to say next. Their second characteristic, which more or less follows the first one, is that Calypso songs rarely if ever made any sense at all, or if they do, it is only to the singer or to some of his cronies who are familiar with the style. Occasionally, and only occasionally, will there be two consecutive verses that tie together, and this is purely a fortunate accident. Most Calypso singing is done rather rapidly and with such exaggerated accents as to make whatever sense the words contain unintelligible.

It seems to me that our national housing program has taken on more and more Calypso characteristics in recent years. It has certainly become a long-drawn-out program. Much of it is simply made up as our legislators go along, and none of us, least of all the legislators, knows what they are going to do next except when the record gets stuck and plays the same phrases over and over again.

There have been a few parts of our housing program that have made sense, but those that made sense in 1936 do not necessarily make sense today. Occasionally there have been two consecutive pieces of legislation that tie together for a sound purpose, and for that we are all thankful and forget that it was perhaps a fortunate accident. Certainly much of the Calypso singing of our legislators has been composed so rapidly and sung with such exaggerated accents that even their cronies were unable to decipher whatever sense the words contained. Witness the confusion among the Housing Expediter's staff and Public Housing Administrator's staff concerning the "will of Congress."

In drawing this comparison I do not mean to imply that the task Congress has chosen for itself has been an easy one. It is a difficult problem to write good legislation on something that is so important to so many people. There is a great temptation to allow the political and emotional aspects of this problem to overbalance the economic factors. I believe that no matter how sincerely Congress may try, it is not equipped by training, experience or temperament to produce sound housing legislation. All too many housing measures involve risking or spending the tax-

payers' money in a manner that private investors would not consider. Furthermore, these measures attempt to solve by government action and participation problems that are best solved by private enterprise at the local level.

We haven't the time or space to go into all of the discordant housing legislation of recent years, but there are several examples that I would like to discuss.

I. Government efforts to combat the housing shortage resulted primarily in intensifying and prolonging it. I say this because most congressional actions toward solving the housing shortage have been at cross-purposes. The program has not been coordinated. While the need for rental housing has been most acute, Congress has encouraged construction of single-family residences and has discouraged construction of rental property. Moreover, congressional action has actually made our supply of rental housing much smaller. Congress' encouragement of single-family residences took the form of a continued cheap money policy and extremely liberal credit terms. Discouragement of rental construction was accomplished through continuation of rent ceilings on new construction until 18 months after the war, and by keeping rigid rent ceilings on many older units even today. These rigid rent ceilings have also played a dominant role in cutting down the existing supply of rental housing because thousands of landlords, unable to charge an economic rent, put their single-family residences up for sale.

II. Credit policies of the government have made a considerable contribution to the large increase in construction costs. It is well-known that for at least two years following the war the building industry was plagued by shortages of material and labor which quite seriously limited the amount of housing that could be produced. Confronted with a critical housing shortage, record-high incomes and a drastically limited volume of new residential construction, Congress moved toward easier credit terms by voting large sums to FHA and VA and authorizing the liberalization of appraisals and lowering of down payment requirements. These easier credit terms only increased the demand for single-family residences by bringing more people into the market and did not raise the productive capacity of the construction industry, which was already operating at the peak imposed by the scarcity of material and labor. The result of this increase in demand, without a corresponding increase in supply, was to raise the cost of those houses moving into the expanding market.

III. The lending policy of the FHA in addition to being inflationary has become extremely risky. In our bulletins and in my speeches I have said many times that while today's FHA loans are safe they are not sound loans. I am referring particularly to 608's and other insured loans on large rental projects. There is little likelihood that these rental units will be able to maintain the high rent schedules necessary to pay off their unprecedented construction costs and many of them will go through foreclosure. However, the government guarantee will protect the lender, and to this extent the loans are sound. Even though all of us use this term "government guarantee," it is an inaccurate use. The taxpayer is inevitably the guarantor upon whom most of the burden of these guaranteed loans will fall, and the program responsible for these high-risk loans has been formulated with little or no regard for the general welfare of the taxpayers. I have said "most of the burden" because, while FHA reserves for making good their guarantees appear quite large, they can be exhausted very quickly by a severe wave of foreclosures.

IV. Government attitude on direct loans for housing has been confusing and has at times seemed on the verge of increasing Federal participation in this field. Fundamentally, any direct government loan is an unsound loan. Private lenders consider certain types of housing loans unsound and will not make them, or they consider certain applicants poor credit risks and refuse to lend to them. The private lender has a moral obligation to his depositors to invest their money with reasonable safety and the government through various regulations has made it a legal obligation. However, direct loans by the government, with rare exceptions, do not meet these requirements of reasonable safety because if the loans were sound the vast majority of them would be made by private lenders. As a matter of fact, the direct home loans made through the Farmers Home Administration carry the requirement that the borrower certify that he cannot obtain the necessary funds from conventional lenders and that he does not have the money himself. This same provision was also written into the recently defeated "middle-income housing bill."

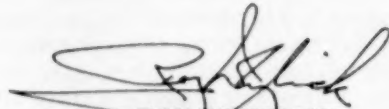
In the March 1950 issue of the Real Estate Trends Bulletin we commented on the extreme steps Congress had taken to assure 4% loans to veterans by authorizing \$150 million in direct government loans. The 4% interest rate for veterans has been magnified far beyond its true importance. The difference between a 4% rate and a 4-1/2% rate on the average veteran home loan is only \$1.35 per month. Risking 150 million tax dollars to save such an insignificant amount for a very small number of veterans (approximately 30,000) is an outstanding example of unsound housing legislation.

To all intents and purposes the FNMA has become an agency of direct government lending. When a lender finds himself short of cash and overburdened with government-insured mortgages that no one else wants, he simply turns them over to FNMA and gets additional funds to invest in more government-insured mortgages, many of which will also be turned over to the FNMA. Private builders say that this crutch is necessary to keep the housing boom rolling at its present speed. Even if this is true, there is some question in my mind as to the advisability of continuing to build at our present rate. The FNMA is another unnatural device whose creation was made necessary by the subnormal interest rates and low equity loans favored by the government.

V. The RFC participation in the prefabricated housing field was a spectacular failure. All of us are familiar with the Lustron story. In the United States, private enterprise has the privilege and opportunity to succeed but it also has the opportunity to fail and the fear of losing what one has invested is often a more powerful incentive to succeed than the lure of profits. When a company or an individual is operating on the taxpayers' money and has nothing to lose, the incentive to succeed is cut by at least 50%. The Lustron house is a good house and good prefabricated houses can be sold. In fact, there are several privately financed prefabbers that have had wonderful success. I believe that if the Lustron operation had been subjected to the rigors of normal birth and growth it would have stood a much better chance of survival, and over 30 million tax dollars could have been saved.

VI. A continuation of our Calypso housing program can easily cause serious overbuilding accompanied by falling rents and real estate values, and rising vacancies and foreclosures. A great deal of talk has gone on regarding the stabilization of our housing boom, but so far all action has been towards continuous expansion, which can be just as unstable as continuous contraction. Expansion of our housing

supply is being carried forward feverishly and in almost total darkness. No one knows what the total housing demand is, yet no matter how many new units are added each year, our housing experts call for even greater totals. Calculations made from the figures released by the Census Bureau and the Bureau of Labor Statistics indicate that we built 865,000 more new dwelling units in nonfarm areas of the United States from April 1940 to April 1949 than the increase in the number of nonfarm families. In addition to the new units, we have converted several hundred thousand units annually to residential use. Moreover, there was a residential vacancy of more than 5% in 1940. In the face of these figures Congress continues to write virtually carte blanche housing legislation, grinding out additional appropriations to FHA, VA and FNMA, authorizing nearly a million public housing units, and setting up the machinery for direct government housing loans to veterans, farmers and educational institutions. Apparently, there is no end to the nation's housing demands so long as the taxpayer will pick up the check or guarantee to pay the bill when it comes due.



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